

# **PUBLIC DISCLOSURE**

April 18, 2016

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Union County Savings Bank  
Certificate Number: 12013

320 North Broad Street  
Elizabeth, New Jersey 07208

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
New York Regional Office

350 Fifth Avenue, Suite 1200  
New York, New York 10118

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated **Substantial Noncompliance**.

A CRA rating of "Substantial Noncompliance" is assigned. An institution in this group has a substantially deficient record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The following table indicates the performance level of the institution with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			
Low Satisfactory		X	
Needs to Improve			X
Substantial Noncompliance	X		
* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.			

**The Lending Test is rated **Substantial Noncompliance**.**

- The bank's lending levels reflect very poor responsiveness to assessment area credit needs.
- A small percentage of the bank's home mortgage loans were originated inside the assessment area.
- The geographic distribution of loans reflects a very poor dispersion throughout the assessment area.
- The borrower distribution of loans reflects very poor penetration of loans among individuals of different income levels throughout the assessment area.
- The bank did not originate any qualified community development loans during the evaluation period.
- The bank makes no use of innovative or flexible loan products to serve assessment area needs.

**The Investment Test is rated Low Satisfactory.**

- The bank has an adequate level of qualified community development investments and grants.
- The bank's qualified investments exhibits adequate responsiveness to community development needs.
- The bank's investments are not particularly innovative or complex; however they provide much needed financial support to entities that makes significant use of the investments to provide affordable housing and community service.

**The Service Test is rated Needs to Improve.**

- Union County Savings Bank's retail delivery systems are accessible to limited portions of the institution's assessment area.
- The bank's opening and closing of branches has generally not adversely affected the accessibility of its delivery systems.
- Services (including, where appropriate, business hours) do not vary in a way that inconveniences portions of the assessment area.
- The bank provides a limited level of community development services.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated November 6, 2014, to the current evaluation dated April 18, 2016. Based on its asset size, Union County Savings Bank's performance was reviewed using the Large Bank CRA evaluation procedures. The Large Bank CRA evaluation procedures evaluate the bank's CRA performance pursuant to three tests: the Lending Test, the Investment Test, and the Service Test.

The Lending Test considered the institution's performance according to the following criteria:

- Volume of lending activity
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Volume of community development lending
- Use of innovative or flexible lending practices

The Investment Test performance considered the following factors:

- Dollar amount of qualified investments
- Innovativeness or complexity of qualified investments
- Responsiveness of qualified investments to credit and community development needs
- The degree to which the qualified investments are not routinely provided by private investors

The Service Test performance considered the following factors:

- Distribution of the institution's branches among geographies of different income levels
- Opening and closing of branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- and moderate-income geographies or that primarily serve low- and moderate-income individuals
- Availability and effectiveness of alternative systems for delivering retail banking services
- Range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies

In addition, the institution's Community Development Services are evaluated pursuant to the following criteria:

- Extent of community development services offered and used
- Innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served
- Degree to which they serve low- and moderate-income areas or individuals
- Responsiveness to available opportunities for community development services

Performance under the Lending Test is weighted more heavily than the investment and service tests when arriving at an overall rating.

## **Loan Products Reviewed**

Discussions with bank management and a review of the bank's balance sheet revealed that Union County Savings Bank almost exclusively offers home mortgage loans. This conclusion considered the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. Bank records indicated that the lending focus and product mix remained consistent throughout the evaluation period.

Union County Savings Bank originates a very limited number of small business loans and consumer loans; consequently, meaningful conclusions could not be drawn regarding CRA-related performance, and these products were not included in this evaluation. The bank does not originate small farm loans. The bank does not have any affiliates engaged in lending.

The CRA evaluation includes an analysis of home mortgage loan data for 2015. Examiners obtained this data from the Loan Application Registers (LAR) maintained by the bank pursuant to the Home Mortgage Disclosure Act (HMDA). Since the majority of the bank's 2014 home mortgage loans were considered in the previous CRA evaluation, 2014 activity was not reconsidered in this evaluation. For the Lending Test, examiners reviewed the number and dollar volume of home mortgage loan originations. While this evaluation presents number and dollar volume of loans, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of individuals served. Typically, the principal comparative value for assessing a bank's home mortgage lending performance is consideration of assessment area aggregate data. Aggregate data includes lending information from all home mortgage reporting lenders that originated at least a single home mortgage loan in the bank's assessment area. Aggregate data for 2015 was not yet available at the time of this evaluation. The Lending Test also considered community development loans originated since the prior evaluation, as well as loans originated under the bank's innovative and flexible lending programs.

For the Investment Test, bank management provided information on new qualified investments, grants, and donations as well as any remaining investments that were qualified during previous evaluations.

The Service Test included retail and community development services provided since the last evaluation.

## DESCRIPTION OF INSTITUTION

### **Background**

Union County Savings Bank is a full-service banking institution headquartered in Elizabeth, New Jersey. Union County Savings Bank operates one subsidiary, the UCSB Charitable Foundation, which support community organizations throughout the assessment area. The bank has no broker relationships or correspondent lenders.

Union County Savings Bank received a “Substantial Noncompliance” rating at the previous FDIC Performance Evaluation, dated November 6, 2014, using Interagency Large Institution Examination Procedures.

### **Operations**

Union County Savings Bank is a mutual savings bank with its main office located in Elizabeth, NJ. The bank operates four branches in Union County, New Jersey. The bank has not opened or closed a branch since 1981. No merger or acquisition activities occurred since the 2014 examination.

Union County Savings Bank primarily offers residential mortgage loans. The bank’s residential loan product is exclusively a fixed-rate, fully-amortizing product, for which the bank receives a very limited number of applications (48 applications were received in 2015). The bank originates a very small number of commercial loans and consumer loans per year.

The bank’s deposit products are similarly limited and non-complex. The bank offers standard interest-bearing accounts with a higher than market interest.

### **Ability and Capacity**

Since the prior evaluation, the bank's assets declined marginally to \$1.7 billion. During the same time period, the bank's loan portfolio decreased 0.9 percent from \$104.4 million to \$103.4 million. The bank’s securities portfolio, consisting primarily of U.S. Government Agency obligations and mortgage-backed securities, totaled \$1.3 billion and represented 75.3 percent of assets and 87.0 percent of deposits. Deposit accounts totaled \$1.5 billion and represented approximately 86.6 percent of all liabilities and capital.

The focus of the bank’s lending is 1-4 family residential mortgage loans, which constitute 89.5 percent of the bank’s total loan portfolio. Commercial real estate loans, consumer loans, and multi-family residential loans comprise the remainder of the portfolio at 8.3 percent, 1.5 percent, and 0.7 percent of total loans, respectively. Table A illustrates the distribution of the bank’s loan portfolio:

<b>Table A - Loan Distribution as of December 31, 2015</b>		
<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (%)</b>
Construction & Land Development	0	0.0
Secured by Farmland	0	0.0
1-4 Family Residential	92,499	89.5
Multi-Family (5 or more) Residential	759	0.7
Commercial	8,628	8.3
<b>Total Real Estate Loans</b>	<b>101,866</b>	<b>98.5</b>
Agricultural	0	0.0
Commercial and Industrial	0	0.0
Consumer	1,535	1.5
Other	0	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>103,421</b>	<b>100.0</b>
<i>Source: Call Report Schedule RC-C</i>		

Examiners did not identify any financial, legal, or other impediments that affect Union County Savings Bank's ability to meet the assessment area's credit needs.



## DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act requires financial institutions to define an assessment area within which its CRA performance is evaluated. The FDIC evaluates the institution's CRA performance based on its activity within the defined assessment area.

### Economic and Demographic Data

Union County Savings Bank's assessment area is defined as 243 contiguous census tracts in New Jersey. The assessment area encompasses all of Union County (108 census tracts) and five whole towns in Essex County: Maplewood, Irvington, Newark, Orange, and East Orange (135 census tracts). Union and Essex Counties are part of Metropolitan Division (MD) 35084, which is part of the larger Metropolitan Statistical Area 35620. The bank has only one assessment area for evaluation purposes, and the defined area meets the technical requirements of the regulation.

The 243 census tracts included in the bank's assessment area reflect the following income designations according to the 2010 U.S. Census (Census):

- 88 low-income tracts,
- 86 moderate-income tracts,
- 40 middle-income tracts,
- 27 upper-income tracts, and
- 2 census tracts with no income designation.

There are no census tracts within the bank's assessment area designated as underserved nonmetropolitan middle-income geographies. Table B illustrates selected demographic characteristics of the assessment area.

Table B –Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	243	36.2	35.4	16.5	11.1	0.8
Population by Geography	985,836	30.2	35.4	19.1	14.8	0.5
Housing Units by Geography	382,979	31.4	36.1	18.8	13.7	0.0
Owner-Occupied Units by Geography	159,689	12.4	29.6	31.4	26.6	0.0
Occupied Rental Units by Geography	181,796	44.4	41.5	9.7	4.4	0.0
Vacant Units by Geography	41,494	47.9	37.4	10.0	4.7	0.0
Businesses by Geography	55,855	26.9	28.4	24.2	19.8	0.7
Farms by Geography	683	11.3	19.0	34.0	35.7	0.0
Family Distribution by Income Level	229,087	36.0	19.7	18.2	26.1	N/A
Household Distribution by Income Level	341,485	36.8	18.6	16.5	28.1	N/A
Median Family Income (2010 U.S. Census)		\$73,327	Median Housing Value Median Gross Rent Families Below Poverty Level			\$423,311 \$974 12.0%
Source: 2010 U.S. Census, 2015 D&B Data, and FFIEC Estimated Median Family Income; (*) The NA category consists of geographies that have not been assigned an income classification.						

As shown in Table B, according to the 2010 census, the total population of the entire assessment area is 985,836. Of the total population, the majority, 65.6 percent, reside in the area's low- or moderate-income tracts. This is consistent with the distribution of census tracts, which reflects that over 70.0 percent of the area's total geographies. The assessment area has 382,979 housing units, of which 41.7 percent are owner-occupied, 47.5 percent are occupied rental units, and 10.8 percent are vacant. The composition of the area's housing stock also impacts credit opportunities. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units. As shown in Table B, 42.0 percent of the assessment area's total owner-occupied housing units are located in the area's low- and moderate-income census tracts, combined. This indicates that, although the assessment area contains more rental units than owner-occupied units, there are opportunities to originate home mortgage loans in the area's low and moderate-income census tracts, as almost half of the owner-occupied units are located in these geographies.

Similarly, the percentage of low- and moderate-income families throughout the assessment area impacts a bank's opportunity to originate home mortgage loans to low- and moderate-income borrowers. Over one half of the total families in the bank's assessment area (55.7 percent) are classified as low- or moderate-income. Further, families with incomes below the poverty level represent 12.0 percent of the total families. These borrowers may have difficulty obtaining and maintaining a home mortgage loans with conventional terms and underwriting conditions.

Examiners used the 2015 Federal Financial Institution Examination Council (FFIEC) updated median family income level to analyze home mortgage loans under the Borrower Profile criterion. Table C shows the low-, moderate-, middle- and upper-income categories, based on the 2015 FFIEC-updated median family incomes.

<b>Table C – Median Family Income Categories for MD 35084</b>					
<b>MSA/MD</b>	<b>FFIEC MFI</b>	<b>Low-Income</b> (Less than 50 % of MFI)	<b>Moderate-Income</b> (At least 50% but less than 80% of MFI)	<b>Middle-Income</b> (At least 80% but less than 120% of MFI)	<b>Upper- Income</b> (120% or more of MFI)
MD 35084 (2015)	\$97,900	<\$48,950	\$48,950to <\$78,320	\$78,320 to <\$117,480	≥\$117,480
<i>Source: Federal Financial Institution Examination Council (FFIEC)</i>					

The figures included in Table C also reflect the housing affordability issues that impact the assessment area. As shown in Table B, the median housing value in the assessment area is \$423,311, based on the 2010 U.S. Census data. This value is more than five times the maximum family income a low- or moderate-income family in the assessment area would earn. This limits the opportunity to lend to low- and moderate-income borrowers, as their incomes would likely not support a mortgage payment or they would have difficulty obtaining home financing.

Data obtained from the U. S. Bureau of Labor and Statistics indicates that the New Jersey statewide unemployment rate of 5.6 percent is well above the national average, as shown in Table D. Similarly, the unemployment rates for Essex and Union Counties are also higher than the New Jersey state average. The 2015 figures reflect a decline from year-end 2014, at which point the unemployment rates were 5.6 percent, 8.0 percent, and 6.9 percent for the state, Essex County, and Union County, respectively.

<b>Table D- Unemployment Rates*</b>	
<b>Area</b>	<b>2015</b>
	<b>%</b>
Union County, NJ	5.9
Essex County, NJ	6.7
New Jersey	5.6
National Average	5.0
<i>Source: Bureau of Labor Statistics; *not seasonally adjusted</i>	

## **Competition**

The assessment area is very competitive in the market for financial services. The assessment area is served by many large regional and national financial institutions such as Wells Fargo Bank, Bank of America, TD Bank, PNC Bank, and JPMorgan Chase. In addition, the area has a high level of competition for banking services from New Jersey-based institutions such as Investors Bank, The Provident Bank, and Valley National Bank. According to FDIC Deposit Market Share data as of June 2015, the latest data available, there were 34 FDIC-insured financial institutions operating 283 full-service banking offices within the bank's assessment area. Of these institutions, Union County Savings Bank ranked 6<sup>th</sup> with a 4.9 percent deposit market share. The institutions ranked higher than Union County Savings Bank were Wells Fargo Bank, Bank of America, New York Community Bank, TD Bank, and Investors Bank, respectively.

There is also a high level of competition for home mortgage loans among banks, credit unions, and non-depository mortgage lenders serving the assessment area. In 2014, the latest year for which aggregate lending data was available, 363 lenders reported 9,097 residential mortgage loans. Union County Savings Bank ranked 67<sup>th</sup> out of this group of lenders, with a 0.3 percent market share by the number of loans reported. Large national lenders such as Wells Fargo, NA, Quicken Loans, Bank of America, NA and JP Morgan Chase Bank, NA captured nearly 25.0 percent of the mortgage market in the bank's assessment area.

## **Community Contact**

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available.

A community contact was made with the director of a housing and community development organization that serves the bank's assessment area. The organization's purpose is to budget, plan for, and administer government funding to serve low- and moderate-income areas. The organization receives its funding from the US Department of Housing and Urban Development (HUD). Using information provided by the represented municipalities, the organization budgets the distribution of funding to various non-profit organizations serving low- and moderate-income families.

The contact identified high property taxes as the greatest impediment for low- and moderate-income first-time homebuyers. While the contact indicated that current funding appropriations for first-time homebuyers and lower-income homeowners are adequate, significant growth in problems related to homelessness, landlord absenteeism, and deterioration in affordable housing communities have considerably strained the organization's ability to effectively serve these communities. The contact emphasized that many lower-income families need significant counseling and assistance with basic financial literacy.

The contact stated that the organization does not have any direct relationships with financial institutions in the area, and it is not familiar with their performance or involvement in lower income communities.

### **Credit and Community Development Needs and Opportunities**

Based on information from the community contact, bank management, and demographic data, the bank's assessment area has specific credit and community development needs. Due to rising home prices and property taxes, the assessment area needs affordable housing and other community support services, including foreclosure prevention, and housing and financial counseling programs. Due to the size and diverse demographics of the assessment area, certain communities are more in need of affordable housing and social services targeted toward low- and moderate-income residents. For example, there are opportunities for credit and community development opportunities in the economically disadvantaged neighborhoods in Elizabeth, Newark, Orange, and East Orange. These areas demonstrate greater need for affordable housing, economic development, and social services. Institutions can address these needs through lending, investments, and services.

## CONCLUSIONS ON PERFORMANCE CRITERIA

### LENDING TEST

Union County Savings Bank demonstrated very poor performance under the Lending Test. The bank's very low Lending Activity, the lack of innovative and flexible lending products, and lack of any community development loans primarily support this conclusion.

#### Lending Activity

This performance criterion considers the volume of the Union County Savings Bank's lending in relation to its financial condition and resources.

Overall, the bank's level of lending reflects a very poor responsiveness to assessment area credit needs. In 2015, the bank originated only 43 home mortgage loans, of which 21 were originated in the bank's assessment area. All the home mortgage loans were secured by 1-4 family residential mortgage loans.

The bank's volume of loans remained stable during the evaluation period. While the assessment area competition presents challenges, the primary reason for the limited loan activity is the bank's decision to allocate the substantial majority of the bank's assets into the securities portfolio. According to the bank's December 31, 2015 balance sheet, 92.8 percent of the bank's assets are investments and only 6.1 percent are loans. Table E details the quarterly changes in total assets, as well as the loan and investment portfolios. The table also shows the bank's quarterly net loan-to-deposit (NLTD) ratio. The net loan-to-deposit ratio is used as a measure of the bank's lending in relation to its deposit base. Union County Savings Bank's limited and declining lending activity since the 2012 evaluation is reflected in Table E below.

Table E - UCSB Select Financial Data					
Quarter Ending	Total Assets (\$000)	Total Loans (\$000)	Total Investments (\$000)	Total Deposits (\$000)	LTD Ratio (%)
12/31/2015	1,691	103	1,569	1,464	7.0
9/30/2015	1,681	103	1,557	1,455	7.1
6/30/2015	1,667	99	1,549	1,444	6.9
3/31/2015	1,687	102	1,567	1,463	7.0
12/31/2014	1,682	103	1,558	1,464	7.0
Source: Reports of Condition and Income (6/30/2012 – 12/31/2015)					

As noted in Table E, the bank's NLTD ratio did not improve since the November 6, 2014. Additionally, for comparative purposes, the bank's NLTD ratio was compared to 12 other similarly situated institutions, based on asset size, market area, and lending focus. Union County Savings Bank's NLTD ratio ranked the lowest for the quarter ending December 31, 2015.

### **Assessment Area Concentration**

The bank's distribution of loans inside the assessment area exhibits poor performance. Less than a majority of the bank's home mortgage loans, by both number and dollar volume, were made inside the assessment area during 2015. Refer to Table F below for specific details concerning the distribution of loans inside and outside the assessment area.

<b>Table F - Distribution of Home Mortgage Loans Inside and Outside of the Assessment Area</b>										
<b>Loan Origination Year</b>	<b>Number of Loans</b>					<b>Dollars in Loans \$(000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total \$(000s)</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
<b>2015</b>	21	48.8	22	51.2	43	4,914	44.6	6,103	55.4	11,017
<i>Source: 2015 HMDA Reported Data</i>										

### **Geographic Distribution**

This segment of the performance evaluation assesses the bank's performance in addressing the credit needs in low-, moderate-, middle-, and upper-income census tracts in the bank's assessment area.

The geographic distribution of the bank's home mortgage loans reflects a very poor distribution throughout the assessment area. Table G depicts the distribution of home mortgage loans within the bank's assessment area for 2015. The bank's home mortgage lending is compared to the total percentage of owner-occupied housing units within each census tract category. As previously noted, the 2015 aggregate lending data was unavailable as of the date of this evaluation.

As shown in Table G, the bank did not originate any loans in the area's low-income census tracts during the evaluation period. While the distribution of the bank's home mortgage loans in moderate-income census tracts reflects more reasonable performance, the distribution reflects poor performance given the limited number of loans included in the analysis.

<b>Table G – Geographic Distribution of Home Mortgage Loans</b>				
<b>Tract Income Level</b>	<b>% of Owner-Occupied Housing Units</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
<b>Low</b>				
2015	12.4	--	0	0.0
<b>Moderate</b>				
2015	29.6	--	7	33.3
<b>Middle</b>				
2015	31.3	--	8	38.1
<b>Upper</b>				
2015	26.7	--	6	28.6
<b>Total</b>				
<b>2015</b>	<b>100.0</b>	<b>--</b>	<b>21</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 2015 HMDA Reported Data; "--" data not available</i>				

### **Borrower Profile**

This performance criterion evaluates Union County Savings Bank's record of lending to low-, moderate-, middle-, and upper-income borrowers. Table H shows the bank's distribution of home mortgage loans amongst the various borrower income level groups for the 2015 calendar year. As displayed in Table H, the distribution of the bank's home mortgage loans among borrowers of different incomes indicates very poor performance when compared to area demographics. Further, the very low volume of originated loans resulted in a less than satisfactory loan penetration.

<b>Table H – Distribution of Home Mortgage Loans by Borrower Income Level</b>				
<b>Borrower Income Level</b>	<b>% of Families</b>	<b>Aggregate Performance % of #</b>	<b>#</b>	<b>%</b>
<b>Low</b>				
2015	36.0	--	1	4.8
<b>Moderate</b>				
2015	19.7	--	3	14.3
<b>Middle</b>				
2015	18.2	--	5	23.8
<b>Upper</b>				
2015	26.1	--	8	38.1
<b>Income Not Available</b>				
2015	0.0	--	4	19.0
<b>Total</b>				
<b>2015</b>	<b>100.0</b>	<b>--</b>	<b>21</b>	<b>100.0</b>
<i>Source: 2010 U.S. Census; 2015 HMDA Reported Data; "--" data not available</i>				

### **Innovative or Flexible Lending Practices**

Union County Savings Bank makes no use of innovative and/or flexible lending practices to serve assessment area credit needs. The bank has not developed any special in-house mortgage loan programs and does not originate home loans through any state or local government sponsored program benefitting low- or moderate-income borrowers.

### **Community Development Lending**

The bank did not originate any community development loans during the evaluation period.

## **INVESTMENT TEST**

### **Investment Activity**

Union County Savings Bank made seven new qualified investments totaling \$8.3 million during the evaluation period and retained 25 qualified investments with remaining total balances of \$6.0 million from previous evaluation periods. In addition, the bank and its charitable foundation made qualified donations totaling \$195,000 during the evaluation period to various community organizations that serve the area. The USCB Charitable Foundation extended \$108,500 of these grants and donations. Union County Savings Bank established UCSB Charitable Foundation in 2002 with an endowment of \$1.0 million in cash. Income derived from the initial funding is used to bestow financial support to charitable organization throughout the bank's assessment area. The foundation provides grants to help fund programs that address various needs, including education, affordable housing, youth programs, and health and human services.

All of the bank's qualified investments are mortgage-backed securities through FNMA, collateralized by mortgage loans originated to low- and moderate-income borrowers located in the bank's assessment area.

Total qualified investments, including qualified grants and donations, for the current evaluation equals \$14.5 million. This represents 0.9 percent of total assets, 1.1 percent of total securities, and 6.6 percent of equity capital. Table I reflects qualified investments and donations by community development purpose and includes prior period investments still outstanding.



**Table I - Qualified Investments**

Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period (1)	25	6,023	0	0	0	0	0	0	0	0	25	6,023
2014	0	0	0	0	0	0	0	0	0	0	0	0
2015	5	5,831	0	0	0	0	0	0	0	0	5	5,831
YTD 2016 (2)	2	2,479	0	0	0	0	0	0	0	0	2	2,479
<b>Subtotal</b>	<b>32</b>	<b>14,333</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>32</b>	<b>14,333</b>
Qualified Grants & Donations	11	42	30	153	0	0	0	0	0	0	41	195
<b>Total</b>	<b>43</b>	<b>14,375</b>	<b>30</b>	<b>153</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>73</b>	<b>14,528</b>
<i>Source: Bank Records</i> <i>(1) Qualified CRA investments from previous evaluation periods</i> <i>(2) January 1, 2016 through April 18, 2016</i>												

The following summarizes some of the larger donations made during the evaluation period.

- St. Joseph Social Service Center (the Center): Established in 1983, the Center provides basic needs such as food, clothing, and medication to the poor and homeless of the greater Elizabeth, NJ area. The foundation made two donations totaling \$20,000 during the evaluation period.
- Community Access Unlimited (CAU): CAU provides multiple services to at-risk youth, persons with intellectual and developmental disabilities, seniors, veterans, and individuals in need of affordable housing. The foundation made donations totaling \$20,000 to CAU during the evaluation period.
- Elizabeth Coalition to House the Homeless (ECHH): During the evaluation period, the foundation provided donations totaling \$9,000 to this organization that serves the needs of the homeless and near homeless in the Elizabeth, NJ area.

### **Responsiveness to Credit and Community Development Needs**

Union County Savings Bank's qualified investments exhibits adequate responsiveness to community development needs. The bank's qualified grants and donations have community development purposes that benefit communities throughout the entire assessment area.

### **Innovativeness or Complexity of Qualified Investments**

The institution rarely uses innovative and/or complex investments to support community development initiatives. However, while Union County Savings Bank's investments are not particularly innovative or complex, they provide much needed financial support to entities that makes significant use of the investments to provide affordable housing and community service.

## **SERVICE TEST**

Union County Savings Bank's retail delivery systems are accessible to limited portions of the bank's assessment area, including low- and moderate-income census tracts. The branch network provides reasonable access to services with respect to the location of the brick and mortar locations in Elizabeth, NJ. While services and business hours do not vary in a way that inconveniences portions of the assessment area, the availability and effectiveness of the bank's alternative systems for delivering retail-banking services to low- and moderate-income individuals and geographies is poor. The bank provides a limited level of community development services relative to the bank's resources and the area's community development needs.

### **Accessibility of Delivery Systems**

Delivery systems are accessible to limited portions of the bank's assessment area. In addition to its main office, Union County Savings Bank operates three branch offices. The main office branch is located in a low-income census tract in Elizabeth, NJ. One of the branch offices is located in a low-income census tract in Elizabeth, NJ, one branch office is located in a middle-income census tract in Union, NJ, and one branch office is located in an upper-income census tract in Cranford, NJ. Three of the four banking offices have drive-up facilities and provide walk-up services. All banking offices offer the same menu of financial products and services to customers. Based on the demographics of the assessment area, the bank employs several bi-lingual (Spanish and Portuguese) individuals at its Elizabeth offices to improve access to financial services for non-English speaking customers.

### **Changes in Branch Locations**

The bank did not open or close any branch offices during the evaluation period.

### **Reasonableness of Business Hours and Services**

Services and hours of operation do not vary in a way that inconveniences portions of the assessment area. All of the bank's offices have similar hours of operation and all offices remain open in the evening at least one day per week. The bank does not offer any Saturday hours. Three of the bank's four branches offer walk-up and drive-up services with extended hours.

### **Community Development Services**

Union County Savings Bank provides a limited level of community development services. The following are the bank's community development services for the evaluation period:

- The bank offers preferential deposit rates to the housing authorities in Elizabeth and Linden. These authorities provide housing-related services, primarily to low- and moderate-income individuals. They currently earn interest rates 10 to 15 basis points higher than the regularly offered rate on comparable deposit accounts.

- A bank director uses his financial expertise by serving as Executive Director of a local housing authority in the City of Elizabeth, which is responsible for providing low-income residents with safe and affordable housing. In addition to overseeing the organization's daily operations and program implementation, he provides guidance concerning lending and funds management.
- A director of the bank provides financial guidance as executive director for local nonprofit organization that promotes the general welfare of Puerto Ricans in the Elizabeth area through housing assistance, education, vocational trainings, employment assistance and other needs.
- On a regular basis, the compliance officer provides basic banking training sessions to youth groups who receive assistance from a local community organization.
- The compliance officer also provides his banking expertise and support as a member of local housing and community development organization that provides services, related to a variety of issues including housing needs, to disadvantaged youth and adults.

## **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

## APPENDIX

### SCOPE OF EVALUATION

SCOPE OF EVALUATION		
<b>TIME PERIOD REVIEWED</b>	Lending analysis from January 1, 2015, through December 31, 2015. Community development loans, innovative and/or flexible loan products and programs, qualified community development investments, retail banking services, and community development services from November 7, 2014, through April 18, 2016.	
<b>FINANCIAL INSTITUTION</b>		<b>PRODUCTS REVIEWED</b>
Union County Savings Bank		Home mortgage loans; innovative and/or flexible loan products and programs; community development loans, investments, and services.
<b>AFFILIATE(S)</b>	<b>AFFILIATE RELATIONSHIP</b>	<b>PRODUCTS REVIEWED</b>
UCSB Charitable Foundation	Subsidiary	Grants and Donations

LIST OF ASSESSMENT AREAS AND TYPE OF EVALUATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
One assessment area consisting of the entirety of Union County, NJ and parts of Essex County, NJ.	Large Bank – Full Scope	None	None

## GLOSSARY

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area:** A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

**Census Tract:** A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

**Combined Statistical Area (CSA):** A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

**Community Development:** For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms;
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies; or
- (5) Enable or facilitate projects or activities that address needs regarding foreclosed or abandoned residential properties in designated target areas.

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Community Development Loan:** A loan that

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
  - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
  - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

**Community Development Service:** A service that

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Core Based Statistical Area (CBSA):** The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

**Distressed Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**FFIEC-Estimated Income Data:** The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

**Full-Scope Review:** A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

**Home Mortgage Loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Limited-Scope Review:** A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Low Income Housing Tax Credit:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.



**Metropolitan Division (MD):** A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area (MSA):** CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Micropolitan Statistical Area:** CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Multi-family:** Refers to a residential structure that contains five or more units.

**Nonmetropolitan Area:** All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Rural Area:** Territories, populations, and housing units that are not classified as urban.

**Small Business Investment Company (SBIC):** SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

**Small Business Loan:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Underserved Middle-Income Nonmetropolitan Geographies:** A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

**Upper-Income:** Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.